

Sri Lanka Institute of Nanotechnology (Private) Limited -2020/2021

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Institute of Nanotechnology (Private) Limited (“Company”) for the year ended 31 March 2021 comprising the statement of financial position as at 31 March 2021 and the statement of profit or loss statement and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 March 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Entity (SLFRS for SMEs).

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Financial Reporting Standards for Small and Medium Entity (SLFRS for SMEs) and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard for Small and Medium Entities

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>a) As per Section 17.19 of the Property, Plant and Equipment on SLFRS for SMEs, if the expected value of effective lifetime of the assets differs from the previous estimate, the difference shall be calculated in accordance with paragraphs 10.15 - 10.18. However, the Company had not re-estimated the effective life time of the fully depreciated fixed assets which currently utilized, the cost of the assets was Rs 570,268,948.</p>	<p>The cost to be incurred for the re-estimating of the useful life time of the assets just for the reporting purpose is a waste of funds. SLINTEC may need to get the support from the foreign experts to re-estimate the useful life time of the assets which would be very costly. Further, if the re-estimation of the useful life time of the assets are done, it should be done within the useful life time of the asset and not after it. All these assets are fully depreciated and re-estimation of the useful lifetime and recognizing them as additions of assets would lead for improper financial statement presentation.</p>	<p>Must comply with accounting policies.</p>

- b) According to Section 2.52 of Concepts and Pervasive Principles on SLFRS for SMEs, the Company shall not offset assets and liabilities, or income and expenses. However, contrary to that, Research and Development Cost was Rs. 308,664,220 and the amount of income recognized from capital government grant of the year under review was Rs. 125,774,438 had been set-off and the difference of them Rs. 182,889,782 identified in the financial statements.
- Amortizations values are properly disclosed in the notes/ schedules in financial statements as a negative value against the respective expenses. Based on the SLFRS for SME's this should not disclose in the face of Income Statement.
- Must comply with accounting policies.
- c) According to Section 2.52 of Concepts and Pervasive Principles on SLFRS for SMEs, the company shall not offset assets and liabilities, or income and expenses. However, contrary to that, amount of Amortization of Govt. Grant and Foreign Grant Value was Rs.41,058,185, set-off from Administration expenses and the difference of them Rs.103,114,323 identified in the financial statements.
- Amortizations values are properly disclosed in the notes/schedules in financial statements as a negative value against the respective expenses. Based on the SLFRS for SME's this should not disclose in the face of Income Statement.
- Must comply with accounting policies.

1.5.2 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
<p>a) The Company's accumulated loss as at 31 March 2021 was Rs. 1,354,781,902 and the net assets as at the year end was Rs. 7,727,575. When compared with the previous year company's net assets, the current year net assets had been decreased by Rs. 99,009,325. According to Section 220 of the Companies Act No. 07 of 2007, the company's net assets were less than half of the company's stated capital, which adversely affect for the going concern of the company. According to a circular tabled at the Board of Directors meeting on 10 of August 2020, focusing on this clause, the science team had been divided into five support groups as profit generating centers and each team was instructed to implement strategies for fulfill short term and long term targets. However, audit observed that such targets had not been achieved even on at the end of year under review.</p>	<p>It should be noted that significant revenue, approximately Rs. 143 Mn, was generated by the Centric Pillars during the period under review, details of the income breakdown are as follows;</p> <p>a) Sale of two patents –20.8 Mn i Graphene anodes for battery ii Textile dye from tea waste</p> <p>b) Royalty from sale of technologies – 2.9 Mn i Nano gold base cosmetics ii. Seed pod</p> <p>c) Contract research for industry – 6.7 Mn</p> <p>d) Setting up/ commissioning GO and rGO plant for CGTL and production of rGO - 21.6 Mn</p> <p>e) Developing e-Sensor for face mask – 5 Mn</p> <p>f) Development and sale of swab – 86 Mn</p> <p>In addition, during the period under review SLINTEC successfully developed rapid test kit based on LAMP-PCR to detect Covid-19 and is in the process of forming a JV to commercialize the technology. This SLINTEC technology is valued at Rs. 150 Mn.</p>	<p>Should be considered about the going concern of the company.</p>

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs.99,009,325 and the corresponding loss in the preceding year amounted to Rs.157,071,131. Therefore an improvement amounting to Rs.58,061,806 of the financial result was observed. The reason for the improvement is increasing other income.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue

Management Comment

Recommendation

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| <p>a) SLINTEC has entered into an agreement with an Indian company, on 15 March 2012 to transfer the Nano Fertilizer Development technology. There total value of the technology transfer was US \$ 2,250,000 and schedule to be recovered in four instalments. However, only a sum of US \$ 1,000,000 had been settled on time as per the agreement and even though invoice had been issued on 30 June 2013 for sum of US \$ 750,000 it had not been recovered by the end of the year under review. Further, invoice for the final instalment amount to US \$ 500,000 had not been issued even as at the end of the year under review.</p> | <p>Nagarjuna bought the rights to a slow release fertilizer and paid a sum of Rs. US\$ 1.0 million. They were due to pay a second tranche along with SLINTEC transferring the patent. However, due to financial challenges the client was unable to settle the dues. We also have not released the patents which are in our name and also issued a letter to client indicating that we will proceed to monetize our patent in the event we do not receive the balance amount due. Therefore we were not raised last invoice based on the agreement since client has not responded for the outstanding invoice exist at the moment (USD 750,000).</p> | <p>Receivable income should be collected.</p> |
| <p>b) The General Treasury of Sri Lanka had granted Rs.20,000,000 and Rs.972,118,196 as recurrent and capital grants during the year under review and capital grants of Rs.694,550,251 for the previous year. The SLINTEC had spent a sum of Rs. 182,889,782 and Rs. 155,613,643 as research and development cost during the year under review and previous year respectively. However, the company had failed to creation of a suitable market for new national importance inventions, discovered through research.</p> | <p>The decision on Swabs procurement is beyond SLINTEC. SLINTEC continues the dialog with public sector and private sector interested parties to commercialize the technology.</p> | <p>Action should be taken to create a suitable market for new inventions discovered through research.</p> |